

**ATTENTION EMPLOYERS, PAYROLL/MANAGEMENT COMPANIES & REGISTERED AGENTS:**  
**Please be certain to forward this information to your client or the party responsible for making decisions.**

On May 4, 2005, Governor Jennifer Granholm signed into law several changes to the *Michigan Employment Security Act* that will make it more difficult for employers in Michigan to engage in a practice known as “SUTA (which stands for “State Unemployment Tax Act”) Dumping.” These changes are mandated through federal and state legislation.

There are several ways an employer can engage in SUTA Dumping, but one factor is common to every method – the employer “dumps” or abandons its history of employment (payroll) and unemployment benefit charges, known as the unemployment “experience.” This practice avoids the tracking of experience, by shifting employees who should be subject to a higher unemployment insurance (UI) tax rate as the result of their actual layoff history to a lower tax rate. Both the Federal Unemployment Tax Act (FUTA) and Michigan Employment Security Act provide for an “experience-rated” system of funding unemployment benefits.

The law changes, effective 7/1/05, in combination with the existing law will:

- Prevent an employer from forming a new business and then transferring existing employees to that business and claiming the 2.7 percent “new employer” tax rate for the sole or primary purpose of reducing the employer’s UI tax rate.

**OVER**

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- Require an employer's UI tax liability to follow employees when they are shifted to a different business owned or controlled by the same persons or interests that operated the first business for the sole or primary purpose of reducing the employer's UI tax rate.
- Require nonprofit or governmental units and Indian tribes, that are "contributing" employers and pay their UI taxes quarterly, to pay their previous UI debts and their negative reserve balance (experience account balance) prior to being allowed to convert to reimbursing status. Also, if an employer applies for conversion from reimbursing to contributing status, they must continue to pay their outstanding unemployment benefit payments that were charged to their reimbursing account. Reimbursing employers reimburse the UIA dollar for dollar for unemployment benefits paid to their former employees.
- Increase an employer's UI tax rate to the highest possible rate for the current and following three years if the employer engages in SUTA Dumping. A new civil penalty of up to \$5,000 will apply if the person who engaged in the SUTA Dumping is not an employer.
- Impose on those who advise their clients to SUTA Dump the current fraud penalties of four times the amount of the avoided taxes. The four-times penalty of the Act's fraud provisions continue to apply to employers who engage in SUTA Dumping.

SUTA dumping rewards employers for dumping their UI responsibility for past benefit charges on the rest of employers who pay their fair share. If you would like the Agency to review your company for possible SUTA Dumping please visit our website at [www.michigan.gov/uia](http://www.michigan.gov/uia). If you have any questions about SUTA Dumping, please call **Employer Customer Relations at 1-800-638-3994**.



DLEG IS AN EQUAL OPPORTUNITY EMPLOYER AND COMPLIES WITH THE AMERICANS WITH DISABILITIES ACT.



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